

**Supporting Statement for the
Check 21 Act Survey
(FR 3080; OMB No. 7100-0279)**

Summary

The Board of Governors of the Federal Reserve System, under delegated authority from the Office of Management and Budget (OMB), proposes to conduct the voluntary Check 21 Act Survey (FR 3080; OMB No. 7100-0279) in 2006. Section 16 of the Check 21 Act requires the Federal Reserve to study the effect of the law on various aspects of check processing and to report the study's results to Congress. The Federal Reserve would use this survey to gather data on funds availability, check fraud, and check collection and return methods and timeframes. The survey panel would be a stratified random sample of approximately 3,000 depository institutions. The Federal Reserve anticipates that 50 percent of the panel, including nearly all the largest 100 institutions, would respond. The average time for a respondent to complete the survey is estimated to be 10 hours and the total burden across all respondents is estimated to be 15,000 hours. Attachment 1 is a copy of the draft survey and instructions.

Background and Justification

Section 16 of the Check 21 Act requires the Federal Reserve to study the implementation of the law and its effect on various aspects of check processing and to report the results of the study to the Congress by April 28, 2007.¹ In particular, section 16 of the Check 21 Act requires the Federal Reserve to "conduct a study of –

- (1) the percentage of total checks cleared in which the paper check is not returned to the paying bank;
- (2) the extent to which banks make funds available to consumers for local and nonlocal checks prior to the expiration of maximum hold periods;
- (3) the length of time within which depository banks learn of the nonpayment of local and nonlocal checks;
- (4) the increase or decrease in check-related losses over the study period;
- (5) the appropriateness of the time periods and amount limits applicable under sections 603 and 604 of the Expedited Funds Availability Act, as in effect on the date of enactment of this Act."

The information necessary for the Federal Reserve to respond to study requirements of the Check 21 Act is not available from other sources. As a result, to fully address the issues raised by Congress, the Federal Reserve believes it is necessary to conduct a broad-based survey to ensure the accurate characterization of the evolving check processing system. Accordingly, the Federal Reserve proposes to conduct a survey to gather data from a nationally representative sample of depository institutions, including commercial banks, savings institutions, and credit unions.

Further, funds availability is governed by the Federal Reserve's Regulation CC, which implements the Expedited Funds Availability Act (EFAA). The EFAA and Regulation CC set maximum hold periods for checks deposited into transaction accounts at depository institutions. The EFAA directs the Federal Reserve to reduce the statutory schedules for funds availability as the check clearing system improves, while also ensuring that the reduced schedules provide depository

¹ The Check 21 Act also directs the Federal Reserve to include in its report to Congress any recommendations for legislative action.

banks a reasonable opportunity to learn of the nonpayment of most checks in each category (such as nonlocal checks and local checks). The results of the proposed survey would be used to determine whether reducing the hold periods in Regulation CC is warranted.

Description of Information Collection

The following summarizes the information to be collected from an institution by the draft survey and includes references to the five study requirements of the Check 21 Act mentioned in the Background and Justification section above. The fifth study requirement is quite broad and, in some sense, all proposed survey questions are responsive to it.

The proposed survey would consist of five sections. Section I would collect general information on the depository institution, such as name, address, and contact person.

Section II consists of seven questions on respondents' losses and recoveries related to check fraud. In its role as bank of first deposit and as paying bank, an institution would be asked to provide the value and number of check losses incurred in 2005, as well as the value and number of cases associated with recoveries received in 2005 from check losses. As bank of first deposit, institutions would be asked to break their losses out into several categories, such as the origin of the check, whether the check was dishonored versus subject to a warranty claim, and the age of the account. As paying bank, institutions would be asked to break their losses out by presentment method (original checks, substitute checks, or checks presented electronically). Both the dollar value and the number of cases would be reported. The respondent also would be asked to compare its check losses in 2005 with its check losses in 2004. Section II questions are in response to study requirements 4 and 5.

Section III consists of two questions on the volume of checks, for cases where the institution was the paying bank and for cases where the institution was the bank of first deposit. The institution would be asked to provide the total number and value of checks presented to it in a calendar month, broken out by presentment method (original checks, substitute checks, or checks presented electronically). The institution also would be asked to provide the total number and value of checks deposited at the institution as the bank of first deposit during the same calendar month, broken out by origin of the check. Section III questions are in response to study requirement 1.

Section IV consists of five questions on the institution's funds availability policies and practices for next-day availability, local, and nonlocal checks. The institution would be asked to provide its number of transaction accounts and the percentage of these accounts held by consumers. The institution would also be asked to indicate its published funds availability policy, including the percentage of consumer transaction accounts for which the policy permits hold extensions on a case-by-case basis, and to specify what changes (if any) it has made to its policy in the past two years. The institution would be asked to indicate its funds availability practices for deposits that do not qualify as exception holds under Regulation CC. Finally, institutions would be asked for the percentage of check deposits subject to Regulation CC exception holds that receive later availability than the Regulation CC permitted holds for next-day availability, local, and nonlocal checks. Section IV questions are in response to study requirement 2.

Section V consists of three questions addressing the institution's experiences with returned checks. The institution would be asked to specify the number of business days within which it receives local and nonlocal checks that have been returned unpaid by the paying bank. Two

questions request data on notifications and procedures regarding large-dollar returned checks. Section V questions are in response to study requirement 3.

Reporting Panel

The survey panel would be a stratified random sample of approximately 3,000 depository institutions selected from a universe of about 18,100 institutions (7,700 commercial banks, 1,300 savings institutions and 9,100 credit unions). The sample would be stratified based on size of institution as measured by level of transactions deposits obtained from the most recent Report of Condition available at the time of sample selection and by entity type (commercial bank², savings institution³, and credit union⁴). The precise allocation of the sample to the strata awaits receipt of future data from the Reports of Condition, but the Federal Reserve expects the sample to include approximately 2,000 commercial banks, 400 savings institutions, and 600 credit unions. No institution with less than \$1 million in transactions deposits would be selected for the survey panel.

Based on experience with other voluntary surveys, the Federal Reserve anticipates that 50 percent of the panel, including nearly all the largest 100 panel members, would respond. Given this response rate, survey items such as U.S. totals of number and value of checks deposited at banks and number and value of checks paid by banks can be estimated with a sampling standard error of about 1 percent.

Time Schedule for Information Collection and Publication

The Federal Reserve plans to distribute the survey form and instructions with a cover letter to depository institutions no later than March 1, 2006, following the Board's final approval. Responses would be due at the Board by May 1, 2006. The Federal Reserve's report to Congress is due April 28, 2007. The Federal Reserve would distribute the report to survey respondents following its submission to Congress.

Legal Status

The Board's Legal Division has determined that this survey is authorized by section 16 of the Check 21 Act (12 U.S.C. § 5015) and is voluntary. The Legal Division has also determined that the information in this survey is confidential under the Freedom of Information Act (5 U.S.C. § 552(b)(4)).

Sensitive Questions

This collection of information contains no questions of a sensitive nature, as defined by OMB guidelines.

Consultation Outside the Agency

The Federal Reserve asked depository institutions and bank trade associations specific questions about the information depository institutions would be able to provide in response to the

² Consolidated Reports of Condition and Income (FFIEC 031 and 041; OMB No. 7100-0036)

³ Thrift Financial Report (OTS-Form -1313 OTS- Form -1568; OMB No. 1550-0023)

⁴ Call Report (NCUA 5300; OMB No. 3133-0004)

study requirements of section 16 of the Check 21 Act. These commenters indicated that institutions use various methods to keep records and that a given institution might not maintain data in a format precisely responsive to the question asked. Based on this concern, the proposed survey would offer a respondent the option to indicate that a response is an estimate. The commenters also stated that the earlier the Federal Reserve makes potential respondents aware of the data being requested, the better the response rate and quality would be. Several suggestions on clarifying and reordering the questions have been incorporated into the proposed survey.

Estimate of Respondent Burden

The average burden for each respondent is estimated to be 10 hours. Larger institutions would require more time to respond to the survey, and the variance in respondents' burden is likely to be high. With 1,500 institutions expected to complete the survey (assuming a 50 percent response rate), the total burden is estimated to be 15,000 hours. This represents less than 1 percent of the total System burden for all Federal Reserve information collections.

	<i>Estimated Number of Respondents</i>	<i>Estimated Frequency</i>	<i>Estimated Average Hours per Response</i>	<i>Estimated Total Burden Hours</i>
FR 3080	1,500	1	10	15,000

Based on an hourly rate of \$45, the estimated total cost to respondents for completing this survey is \$675,000.

Estimate of Cost to the Federal Government

The cost to the Federal Reserve of collecting and processing the information is estimated to be \$500,000.